advertising should be zero percent. The majority of product advertising expenditures would not be duplicated because of customer awareness. Print or media advertising would affect both LEC and existing or prospective CLC customers. The CLC would need to merely communicate the value it would add or the savings it would offer to entice existing customers to switch from the LEC. In addition, product advertising continues even with the switch from a retailing to a wholesaling environment. For example, Intel Corporation heavily advertises its Pentium processor despite the wholesale nature of the majority of the product.

Q. Would you please explain your correction of Dr. Selwyn's study with regard to maintenance expenses?

A. Yes. Maintenance expenses should not be included at all as avoided, except to the extent that any support assets may actually be expected to be avoided. I believe this is the original intent of Dr. Selwyn's study, but the allocation methods used in the study reach beyond this objective, and the results are not consistent with an attempt to identify maintenance expenses associated with avoided support assets.

The only maintenance expense subaccount that is potentially relevant to the avoided cost analysis is Account 6510, Other Property Plant and Equipment. Even though the expenses in this subaccount in total represent only 1.5 percent of all maintenance expenses, and the avoided portion would be considerably smaller yet, nonetheless Dr. Selwyn's study attempts to identify 3.2 percent of all maintenance expenses as avoided.

I have corrected this problem by applying the general overhead allocation factor developed in the model to Account 6510 expenses only; no other maintenance expenses can be expected to be avoided. In addition, I calculated the resulting composite avoided percent for total maintenance expenses, for use in calculating the avoided percent of all other plant-related expenses, including depreciation, and return and taxes.

This approach produces results for all plant-related expense categories that are much more consistent with the need to identify only the expenses related to support assets, and then to identify only a portion of that component as avoided.

Q. Dr. Selwyn makes the argument that his study underassigns avoided depreciation expense, because no adjustment is made for differences in depreciation lives. (AT&T/MCI, Selwyn, p. 29, l. 17 through p. 30, l. 8.) Do you agree with his assessment?

A. Yes. As Dr. Selwyn correctly notes, the relatively shorter lives for support assets would, in general, cause the plant-based allocations of the associated expenses to underassign support asset expenses.

Q. Is this significant to the results of his avoided cost analysis?

A. No, it is not a significant issue. Especially after correcting the Customer Service expense allocation errors, the results of Dr. Selwyn's study are relatively insensitive to changes in the depreciation expense allocation.

Q. Are the results of your analysis of Dr. Selwyn's study surprising or unexpected?

A. No. The proposed composite avoided cost discounts of over 20 percent are obviously not reasonable results. The avoided costs implied by such factors are in many cases greater than the corresponding expenses that might have been included in TSLRICs; in many cases, such factors imply avoided costs that are greater than the entire TSLRIC.

Mr. Brevitz presents in his testimony further validation of the reasonableness of GTE's study results in that they are consistent with the results filed by United Telephone-Southeast in Tennessee, and concludes that these results are reasonable for use in California. (Sprint, Brevitz, p. 44, ll. 3-5, 20-21.)

Q. When correctly performed, are studies of the type proposed by Dr. Selwyn and MCI useful to the Commission for identifying avoided costs as required in this proceeding?

A. No, even when the fundamental assumptions underlying the study are revised and the source data is interpreted in a manner leading to appropriate allocation recommendations, these models are still not useful to the Commission as a basis for meaningful policy considerations. The study is conducted at too high a level, and is not designed to lead to an identification of avoided costs that differ from service to service, or at least from one service category to another.

Q. Would the studies of the type proposed by Dr. Selwyn ever be useful in identifying avoided costs?

A. Such methods may be useful: (1) as a presumptive approach to the avoided cost problem when more refined studies have not yet been properly prepared; or (2) as a convenient way to gauge, test, benchmark or otherwise explain the results of more sophisticated analysis methods.

IV.

GTE'S AVOIDED COST STUDY

Q. In his testimony, Dr. Selwyn provides a rather complete description of GTE's study avoided cost study methodology. (AT&T/MCI, Selwyn, p. 62, l. 1 through p. 64, l. 17.) Is his understanding of GTE's analysis correct?

A. Yes, Dr. Selwyn's overview of the GTE study is a good general description of the methods used to develop the Avoided Cost Study.[6] Based on the understanding reflected in that description, Dr. Selwyn outlined four major criticisms of GTE's Avoided Cost Study:

1. Misclassifies retailing costs as wholesale.
2. Excessive reliance on unsupported revenue and sales quota allocators.
3. Recommendation for vertical services.
4. Assumes wholesale basic service transaction costs similar to advanced services like frame

[6] On page 63 of his testimony, at line 9, Dr. Selwyn points out that "[t]he GTEC Study's avoided cost results are developed for a limited number of service categories." In fact, GTE's Avoided Cost Study uses five service categories to identify avoided costs, and six other categories to separately identify study revenues and costs for various other services. Dr. Selwyn's [illegible] study did not identify any service categories.

relay and ISDN.

Q. Do you agree with the criticisms of the GTE study Dr. Selwyn outlined?

A. No, I do not.

Q. Please elaborate on your position regarding Dr. Selwyn's criticism that GTE has misclassified retailing costs as wholesale.

A. As previously discussed in my testimony, GTE has, in accordance with the Act, correctly identified the costs that will be avoided by the LEC when retail services are offered on a wholesale basis. Dr. Selwyn arbitrarily changes GTE's assignments based on his assumption that these costs, at some point in time, will be avoidable. The examples Dr. Selwyn identifies that GTE has failed to include in its study (Selwyn, 69, ll. 8-18) are costs that will not be avoided as GTE begins to offer services for resale, as these are functions which are required to maintain a retail product line.

Q. Why did GTE not include the costs of general support assets associated in their study?

A. Again, this type of cost, one which is somewhat fixed in nature and will not vary with a unit of production, will not be avoided as GTE offers services for resale and therefore was not included in the study as an avoided cost.

Q. Did GTE incorrectly remove nonrecurring service ordering costs in its estimates of avoided retailing costs?

A. No. As discussed in my direct testimony, GTE performed a separate cost study for the service ordering costs associated with resale orders. The ordering of resale services will be substantially different from the ordering of retail services and therefore a separate study was conducted. The only appropriate way to account for the separate study was to completely remove the nonrecurring service ordering costs from the avoided cost analysis and account for these costs on a separate basis. This method avoids the possibility of over-recovery or under-recovery of these costs as they are handled on a stand alone basis.

Q. Is Dr. Selwyn correct in his assertion that GTE has placed excessive reliance on unsupported revenue and sales quota allocators.

A. No. Whenever possible GTE directly assigned expenses to service categories. In those instances where direct assignment could not be made, an allocator was used. As pointed out by Dr. Selwyn, in most instances the allocator used was revenue based. GTE chose this methodology as it is supported by economic literature[7] and because it accurately reflects GTE's retail business. The purpose of the avoided cost study is to identify those retail costs which will be avoided if a service is offered on a wholesale basis. Generally, the cost centers which were impacted by a retail/wholesale differentiation were customer oriented and not service oriented--the expenses which have been identified

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[7] See, generally, Spulber, D. (1989) Regulation and Markets, Cambridge, MA: MIT Press, Chapter 3.

as avoided currently support GTE's retail revenue stream and therefore allocating the expenses based on those revenues is a reasonable and accurate methodology.

Q. Why did GTE use sales quotas as an allocator for some workcenter expenses?

A. GTE used sales quotas as an allocator for the workcenters associated with Sales type expenses. These quotas are objectives given to the sales force on a product basis and reflect the retail services and products which the sales force is supporting. The Business Line of Business does not include simple business products (e.g., the 1MB) and therefore an allocator reflecting the work actually performed and the services supported was necessary. GTE believes that the sales quotas is the most accurate information to use.

Q. Why did GTE apply the residential and business category percentage of avoided costs to vertical services?

A. As discussed in my Direct Testimony, as well as the avoided cost study itself, GTE does not currently have a substantial wholesale market for vertical services and accordingly an avoided cost per unit could not be calculated. Because vertical services are fulfilled through the same workcenter channels (primarily on a customer basis rather than a service basis) as the line the cost characteristics should be the same and therefore, it is appropriate to use the residential and business category percentages as a means of discounting the vertical services

Q. Do you agree with Dr [illegible]n's allegation that GTE has understated its retailing costs due to promotional strategies?

A. No, I do not. GTE's avoided cost study was based on actual cost structures on a workcenter basis. All costs which will be avoided have been identified and any use of promotional type strategies is a pricing issue which will not impact avoided costs.

Q. Is Dr. Selwyn correct when he states that "[t]he GTE study makes the unreasonable assumption that the transaction costs for wholesale basic services will be similar to those experienced for complex and specialized 'Advanced Services' such as ISDN and frame relay." (AT&T/MCI, Selwyn, p. 77, ll. 7-9.)

A. No, Dr. Selwyn has incorrectly characterized GTE's study. GTE's study does not assume that the wholesale costs for resold services will be the same as those for advanced access services provided to IXCs. GTE's wholesale costs for resold services is based primarily on carrier special access (in many instances private lines) for line-type service categories and switched access for usage-type service categories.

Q. DRA has taken issue with GTE's avoided cost study on the grounds that it is based on total GTE Telephone Operations data rather than GTE California data, and GTE has not performed any check to see if this is valid. Do you agree with DRA's assessment?

A. DRA is correct in the fact that GTE's study was based on total telephone operations data, however, the fact that no validation was performed is precisely the sort of problem that Dr. Selwyn's study is useful in solving. As I pointed out earlier in my testimony, when corrected Dr. Selwyn's study, which uses GTE California data, indicates that the overall discount rate should be 10 percent or less. GTE's study results are also in that range. This comparison serves as a validation of GTE's methodology and that the analysis of total telephone operations data produces reasonable results.

V.

RESALE RESTRICTIONS

Q. Does the Act allow a state commission to restrict resale of particular services to certain categories of customers?

A. Yes. Section 251(c)(4)(B) authorizes the state commissions to restrict resale to certain categories of customers. Therefore, restrictions which prohibit the resale of residential services to business customers are reasonable and should be allowed under the Act.

Q. Have other parties developed reasonable use and user restrictions?

A. Yes. DRA has concluded (p. 6-20, ¶ 40) that the use and user restrictions in GTE's current resale tariffs are reasonable. DRA further recommends the additional restrictions that the Commission: (1) prohibit CLCs from purchasing discounted wholesale services for their own use;

and (2) require CLCs to resell wholesale services to end users and prohibit use of wholesale services for internal or administrative use. GTE concurs with these recommendations.

Q. Are there other reasonable resale restrictions which are necessary?

A. Yes. Promotional offerings, discounted pricing plans or service packages, and contract service arrangements should be excluded from resale.

Q. Why is it reasonable and necessary to exclude promotional offerings from resale?

A. Promotional offerings are one of the primary mechanisms by which service providers compete. Competitors of all types offer promotions when the benefits in terms of future revenues outweigh the revenues foregone due to the promotion. Compelling ILECs to make promotional offerings available to competitors, even if under the same terms and conditions applied to other subscribers, would change this cost-benefit analysis significantly. It would impede competition by making promotional offerings less viable, and would unfairly advantage ILEC competitors. The ability of CLCs to pass on a promotion at no cost to themselves would undermine the ILECs' efforts to promote its services.

Q. Why is it reasonable and necessary to exclude discounted pricing plans or service packages and contract service arrangements from resale?

A. It is well-recognized that volume discount and similar pricing plans reflect the economic cost savings to the provider of dealing in bulk. Similar savings are evident--and passed on to purchasers--in discounted service packages, such as those offering multiple vertical features for a price lower than the individual price of each individual feature. Requiring additional price reductions for services already available at a discount would not promote competition. In context, the 1996 Act's wholesale rate requirement was clearly directed at "retail" services, under the assumption that such offerings typically are not available at a discounted rate. Thus, the failure to mandate any further discount should have no effect on the ability of new entrants to compete in the local exchange market by reoffering volume-discounted services to their customers. Resale in the long distance market has thrived without further discounting of volume pricing plans, and it will do so in the local market as well.

VI.

WHOLESALE NON-RECURRING CHARGES

Q. How did GTE determine its wholesale NRC charges?

A. GTE properly based its wholesale NRCs on a study of the incurred costs for wholesale service connection.

Q. Why did GTE not apply its avoided cost discount to its retail NRC?

A. Applying an avoided cost discount to retail NRCs is inappropriate for establishing wholesale NRCs.

Q. Why would this be in appropriate?

A. Setting wholesale NRCs on the basis of retail NRCs less an avoided discount is totally inappropriate because the wholesale service is not necessarily the same as the retail service. Residence service connection charges are of questionable use as a proxy for the costs of wholesale service provisioning, due to the different nature of the service. Such an approach would also not take appropriate measure of any activities where costs are increased by the creation of a wholesale service provisioning process.

Q. Ms. Murray claims that "GTEC has not yet provided any estimates of the non-recurring costs for most unbundled network elements." (AT&T/MCI, Murray, p. 33, 7-8.) Do you agree with her claim?

A. No. The non-recurring costs for unbundled network elements (UNEs) were submitted on May 1, 1996.

Q. Ms. Murray recommends that the Commission should set NRCs for UNEs equal to the most closely corresponding retail NRC, minus the applicable adopted avoided cost discount. (AT&T/MCI, Murray, p. 36, 11.) Do you agree with this recommendation?

A. No. Again, due to the different nature of the service, a stand alone cost study, such as the one GTE performed, would be the most appropriate way to identify these costs.

Q. Ms. Murray also recommends that when a carrier orders two or more of the loop-related elements at the same time, the ILEC should only be allowed to charge one NRC, otherwise the ILECs could create a new barrier to entry by doubling or even tripling the appropriate pro-competitive NRC.

(AT&T/MCI, Murray, p. 36, 17-19.) Could you please comment on this recommendation?

A. GTE has revised the NRCs associated with the purchase of unbundled loops. This revision addresses Ms. Murray's recommendation.

Q. For unbundled services, Ms. Murray recommends that NRCs should be significantly lower than for comparable retail services. (AT&T/MCI, Murray, p. 37, 6-7.) Do you agree?

A. Ms. Murray had no support for her claim. Therefore, the GTE cost study which reflects actual NRC costs is the appropriate cost.

Q. Does this conclude your testimony?

A. Yes.

ATTACHMENT 1

Source. ARMIS - GTEC FCC Report 4303, 1995 (Jan 95 - Dec 95)
($000's omitted)

	Acct	Total Operating Expenses (a)
	SUMMARY:	
1	*Total Operating Revenues*	
2	*Uncollectibles (Account 5300)*	
3	*Total Revenues plus Uncollectibles*	
4	*Total Operating Expenses*	
5	*Return and Taxes*	
6	*Total Operating Expenses plus Return & Taxes*	
7	*Total Avoided Retailing Expenses*	
8	*Percent Avoided Costs*	
9	*Percent Avoided Costs (Corrected to determine the discount rate applicable to retail prices in conformance with the Telecommunications Act of 1996.)*	

Source: ARMIS - GTEC FCC Report 4303, 1995 (Jan 95 - Dec 95)
($000's omitted)

1A. Certain Avoided Cost Studies, as filed

1B. Corrections to reflect the appropriate treatment of Customer Service expenses

	Acct	Total Operating Expenses (a)	1A Dr. Selwyn's Study: Avoided Retail Percent (b)	1A Dr. Selwyn's Study: Avoided Retailing Expenses (c)=(a)x(b)	1B Dr. Selwyn's Study: Avoided Retail Percent (f)	1B Dr. Selwyn's Study: Avoided Retailing Expenses (g)=(a)x(f)
	SUMMARY:					
1	*Total Operating Revenues*		$2,572,521	[ARMIS]	$2,572,521	[ARMIS]
2	*Uncollectibles (Account 5300)*		$77,775	[ARMIS]	$77,775	[ARMIS]
3	*Total Revenues plus Uncollectibles*		$2,650,296	[ln 1 + ln 2]	$2,650,296	[ln 1 + ln 2]
4	*Total Operating Expenses*		$2,031,372	[ARMIS]	$2,031,372	[ARMIS]
5	*Return and Taxes*		$618,924	[ln 3 - ln 4]	$618,924	[ln 3 - ln 4]
6	*Total Operating Expenses plus Return & Taxes*		$2,650,296	[ln 4 + ln 5]	$2,650,296	[ln 4 + ln 5]
7	*Total Avoided Retailing Expenses*		$604,011	[Analysis]	$337,830	[Analysis]
8	*Percent Avoided Costs*		22.8%	[ln 7 ÷ ln 3]	12.7%	[ln 7 ÷ ln 3]
9	*Percent Avoided Costs (Corrected to determine the discount rate applicable to retail prices in conformance with the Telecommunications Act of 1996.)*					

Source: ARMIS - GTEC FCC Report 4303, 1995 (Jan 95 - Dec 95)
($000's omitted)

	Acct		Total Operating Expenses (a)
12		*Marketing Expenses*	$100,183
13	6611	Product Management	$14,507
14	6612	Sales	$58,727
15	6613	Product Advertising	$26,859
16		*Customer Service Expenses*	$255,580
17	6621	Call Completion	$14,672
18	6622	Number Service	$56,340
19	6623	Customer Service	$184,568
20	5300	*Uncollectibles*	$77,775
21		*Support Expenses*	$217,584
22	6110	Network Support Expenses	$7,163
23	6112	Motor Vehicles	$3,721
24	6113	Aircraft	$1,750
25	6114	Special Purpose Vehicles	$0
26	6115	Garage & Work Equipment	$135
27	6116	Other Work Equipment	$1,558
28	6120	General Support Expenses	$210,431
29	6121	Land & Buildings	$62,794
30	6122	Furniture & Artworks	$5,741
31	6123	Office Equipment	$9,100
32	6124	General Purpose Computers	$132,796
33		*Corporate Overhead Expenses*	$359,072
34	6710	Executive & Planning	$14,125
35	[illegible]	Executive	$7,738
[illegible]	[illegible]	Planning	$6,387
[illegible]	[illegible]	General & Administrative	$344,947
[illegible]	[illegible]	Accounting & Finance	$29,377
[illegible]	[illegible]	External Relations	$16,803
[illegible]	[illegible]	Human Resources	$27,589
[illegible]	[illegible]	Information Management	$142,434
[illegible]	[illegible]	Legal	$4,686
43	6726	Procurement	$3,673
44	6727	Research & Development	$9,114
45	6728	Other General & Administrative	$111,271
46	6790	Provision for Uncoll Notes Rec	$0
47		*Other Expenses*	$13,620
48	7370	Special Charges	$6,461
49	7540	Other Interest Deductions	$7,159

Source: ARMIS - GTEC FCC Report 4303, 1995 (Jan 95 - Dec 95)
($000's omitted)

1A. Certain Avoided Cost Studies, as filed

1B. Corrections to reflect the appropriate treatment of Customer Service expenses

	Acct		Total Operating Expenses (a)	1A Dr. Selwyn's Study: Avoided Retail Percent (b)	1A Dr. Selwyn's Study: Avoided Retailing Expenses (c)=(a)x(b)	1B Dr. Selwyn's Study: Avoided Retail Percent (f)	1B Dr. Selwyn's Study: Avoided Retailing Expenses (g)=(a)x(f)
12		*Marketing Expenses*	$100,183	99.89%	$100,074	99.89%	$100,074
13	6611	Product Management	$14,507	99.87%	$14,488	99.87%	$14,488
14	6612	Sales	$58,727	100.00%	$58,727	100.00%	$58,727
15	6613	Product Advertising	$26,859	100.00%	$26,859	100.00%	$26,859
16		*Customer Service Expenses*	$255,580	93.92%	$240,034	27.10%	$69,213
17	6621	Call Completion	$14,672	93.79%	$13,756	0.00%	$0
18	6622	Number Service	$56,340	85.50%	$48,171	0.00%	$0
19	6623	Customer Service	$184,568	96.50%	$178,108	37.50%	$69,213
20	5300	*Uncollectibles*	$77,775	95.20%	$74,042	95.20%	$74,042
21		*Support Expenses*	$217,584	23.3421%	$50,781	11.6184%	$25,281
22	6110	Network Support Expenses	$7,163	23.3421%	$1,672	11.6184%	$832
23	6112	Motor Vehicles	$3,721				
24	6113	Aircraft	$1,750				
25	6114	Special Purpose Vehicles	$0				
26	6115	Garage & Work Equipment	$135				
27	6116	Other Work Equipment	$1,558				
28	6120	General Support Expenses	$210,431	23.3421%	$49,119	11.6184%	$24,449
29	6121	Land & Buildings	$62,794				
30	6122	Furniture & Artworks	$5,741				
31	6123	Office Equipment	$9,100				
32	6124	General Purpose Computers	$132,796				
33		*Corporate Overhead Expenses*	$359,072	23.3421%	$83,815	11.6183%	$41,718
34	6710	Executive & Planning	$14,125	23.3421%	$3,297	11.6184%	$1,641
35	6711	Executive	$7,738				
36	6712	Planning	$6,387				
37	6720	General & Administrative	$344,947	23.3421%	$80,518	11.6184%	$40,077
38	6721	Accounting & Finance	$29,377				
39	6722	External Relations	$16,803				
40	6723	Human Resources	$27,589				
41	6724	Information Management	$142,434				
42	6725	Legal	$4,686				
43	6726	Procurement	$3,673				
44	6727	Research & Development	$9,114				
45	6728	Other General & Administrative	$111,271				
46	6790	Provision for Uncoll Notes Rec	$0	23.3421%	$0	11.6184%	$0
47		*Other Expenses*	$13,620	23.3407%	$3,179	11.6226%	$1,583
48	7370	Special Charges	$6,461	23.3421%	$1,508	11.6184%	$751
49	7540	Other Interest Deductions	$7,159	23.3421%	$1,671	11.6184%	$832

Source: ARMIS - GTEC FCC Report 4303, 1995 (Jan 95 - Dec 95)
($000's omitted)

Source: ARMIS - GTEC FCC Report 4303, 1995 (Jan 95 - Dec 95)
($000's omitted)

1A. Certain Avoided Cost Studies, as filed

1B. Corrections to reflect the appropriate treatment of Customer Service expenses

	Acct		Total Operating Expenses (a)		Acct		Total Operating Expenses (a)	Dr. Selwyn's Study (1A): Avoided Retail Percent (b)	Dr. Selwyn's Study (1A): Avoided Retailing Expenses (c)=(a)x(b)	Dr. Selwyn's Study (1B): Avoided Retail Percent (f)	Dr. Selwyn's Study (1B): Avoided Retailing Expenses (g)=(a)x(f)
50		*Maintenance Expenses*	$384,457	50		*Maintenance Expenses*	$384,457	3.2019%	$12,310	1.5937%	$6,127
51	6210	Central Office Switching	$105,817	51	6210	Central Office Switching	$105,817	3.2017%	$3,388	1.5936%	$1,686
52	6220	Operator Systems	$1,424	52	6220	Operator Systems	$1,424	3.2017%	$46	1.5936%	$23
53	6230	Central Office Transmission	$18,915	53	6230	Central Office Transmission	$18,915	3.2017%	$606	1.5936%	$301
54	6310	Information Orig/Term Expenses	$13,750	54	6310	Information Orig/Term Expenses	$13,750	3.2017%	$440	1.5936%	$219
55	6311	Station Apparatus	$0	55	6311	Station Apparatus	$0				
56	6341	Large PABX	$0	56	6341	Large PABX	$0				
57	6351	Public Telephone Equipment	$7,579	57	6351	Public Telephone Equipment	$7,579				
58	6362	Other Terminal Equipment	$6,171	58	6362	Other Terminal Equipment	$6,171				
59	6410	Cable & Wire Facilities	$99,703	59	6410	Cable & Wire Facilities	$99,703	3.2017%	$3,192	1.5936%	$1,589
60	6510	Other PP&E Expenses	$6,056	60	6510	Other PP&E Expenses	$6,056	3.2017%	$194	1.5936%	$97
61	6511	Property Held for Future Use	$0	61	6511	Property Held for Future Use	$0				
62	6512	Provisioning	$6,056	62	6512	Provisioning	$6,056				
63	6530	Network Operations Expenses	$138,792	63	6530	Network Operations Expenses	$138,792	3.2017%	$4,444	1.5936%	$2,212
64	6531	Power	$8,346	64	6531	Power	$8,346				
65	6532	Network Administration	$47,107	65	6532	Network Administration	$47,107				
66	6533	Testing	$32,037	66	6533	Testing	$32,037				
67	6534	Plant Operations Administration	$31,945	67	6534	Plant Operations Administration	$31,945				
68	6535	Engineering	$19,358	68	6535	Engineering	$19,358				
69	6540	*Access Expenses*	$48,776	69	6540	*Access Expenses*	$48,776	3.2017%	$1,562	1.5936%	$777
70	6560	*Depreciation Expenses*	$574,315	70	6560	*Depreciation Expenses*	$574,315	3.2017%	$18,388	1.5936%	$9,152
71	6561	Telecomm Plant in Service	$568,969	71	6561	Telecomm Plant in Service	$568,969				
72	6562	Property Held for Future Use	$0	72	6562	Property Held for Future Use	$0				
73	6563	Amortization - Tangibles	$5,346	73	6563	Amortization - Tangibles	$5,346				
74	6564	Amortization - Intangibles	$0	74	6564	Amortization - Intangibles	$0				
75	6565	Amortization - Other	$0	75	6565	Amortization - Other	$0				
76		*Return and Taxes*	$618,924	76		*Return and Taxes*	$618,924	3.2017%	$19,816	1.5936%	$9,863

Source: ARMIS - GTEC FCC Report 4303, 1995 (Jan 95 - Dec 95)
($000's omitted)

Acct	Total Operating Expenses (a)
78 Total Operating Expense	
79 Total Depreciation Expense	
80 Total Operating Expense less Depreciation	
81 Avoidable Marketing Expense	
82 Avoidable Customer Service Expense	
83 Avoidable Marketing & Customer Service Expenses	
84 Retail Share of General Expense	
85 Telephone Plant in Service	
86 Land & Support Plant	
87 Land & Support Share of Plant in Service	
88 Retail Share of General Expense	
89 Retail Share of Plant-Related Expense	
90 Total Revenues	
91 Total Uncollectibles	
92 Total Uncollectibles as a % of Total Revenues	
93 Total Access Revenues	
94 Carrier Uncollectibles	
95 Carrier Uncollectibles as a % of Carrier Revenues	
96 Other Revenues	
[illegible]	
[illegible] as a % of Other Revenues	
[illegible]	
[illegible] Expenses, i.e.,100% avoidable	
[illegible] General Support Expenses	
[illegible] Depreciation & Amortization Expenses	
103 GS = General Support Expenses	
104 GA = General & Administrative Expenses to be allocated, i.e., less External Relations and R&D	
105 GA Avoid % = (BxA)/(CxB-CxGS-BxGA)	
106 GS Avoid % = (CxA)/(BxC-BxGA-CxGS)	
107 External Relations and R&D Avoid %	

Source: ARMIS - GTEC FCC Report 4303, 1995 (Jan 95 - Dec 95)
($000's omitted)

1A. Certain Avoided Cost Studies, as filed

1B. Corrections to reflect the appropriate treatment of Customer Service expenses

Acct	Total Operating Expenses (a)	1A Dr. Selwyn's Study: Avoided Retail Percent (b)	1A Dr. Selwyn's Study: Avoided Retailing Expenses (c)=(a)x(b)	1B Dr. Selwyn's Study: Avoided Retail Percent (f)	1B Dr. Selwyn's Study: Avoided Retailing Expenses (g)=(a)x(f)
78 Total Operating Expense		$2,031,372	[ln 4a]	$2,031,372	[ln 4a]
79 Total Depreciation Expense		$574,315	[ln 76a]	$574,315	[ln 76a]
80 Total Operating Expense less Depreciation		$1,457,057	[ln 78 - ln 79]	$1,457,057	[ln 78 - ln 79]
81 Avoidable Marketing Expense		$100,074	[ln 12]	$100,074	[ln 12]
82 Avoidable Customer Service Expense		$240,034	[ln 16]	$69,213	[ln 16]
83 Avoidable Marketing & Customer Service Expenses		$340,108	[ln 81 + ln 82]	$169,287	[ln 81 + ln 82]
84 Retail Share of General Expense		23.3421%	[ln 83 ÷ ln 80]	11.6184%	[ln 83 ÷ ln 80]
85 Telephone Plant in Service		$8,211,282	[ARMIS]	$8,211,282	[ARMIS]
86 Land & Support Plant		$1,126,279	[ARMIS]	$1,126,279	[ARMIS]
87 Land & Support Share of Plant in Service		13.7163%	[ln 86 ÷ ln 85]	13.7163%	[ln 86 ÷ ln 85]
88 Retail Share of General Expense		23.3421%	[ln 84]	11.6184%	[ln 84]
89 Retail Share of Plant-Related Expense		3.2017%	[ln 87 x ln 88]	1.5936%	[ln 87 x ln 88]
90 Total Revenues		$7,235,876	[Pacific]	$7,235,876	[Pacific]
91 Total Uncollectibles		$133,015	[Pacific]	$133,015	[Pacific]
92 Total Uncollectibles as a % of Total Revenues		1.84%	[ln 91 ÷ ln 90]	1.84%	[ln 91 ÷ ln 90]
93 Total Access Revenues		$1,430,740	[Pacific]	$1,430,740	[Pacific]
94 Carrier Uncollectibles		$1,515	[Pacific]	$1,515	[Pacific]
95 Carrier Uncollectibles as a % of Carrier Revenues		0.11%	[ln 94 ÷ ln93]	0.11%	[ln 94 ÷ ln93]
96 Other Revenues		$5,805,136	[ln 90 - ln 93]	$5,805,136	[ln 90 - ln 93]
97 Other Uncollectibles		$131,500	[ln 91 - ln 94]	$131,500	[ln 91 - ln 94]
98 Other Uncolleftibles as a % of Other Revenues		2.27%	[ln 97 ÷ ln 96]	2.27%	[ln 97 ÷ ln 96]
99 % Avoided		95.2%	[1-(ln 95 ÷ ln 98)]	95.2%	[1-(ln 95 ÷ ln 98)]
100 A = Known Avoidable Expenses, i.e.,100% avoidable					
101 B = Total Expenses - General Support Expenses					
102 C = Total Expenses - Depreciation & Amortization Expenses					
103 GS = General Support Expenses					
104 GA = General & Administrative Expenses to be allocated, i.e., less External Relations and R&D					
105 GA Avoid % = (BxA)/(CxB-CxGS-BxGA)					
106 GS Avoid % = (CxA)/(BxC-BxGA-CxGS)					
107 External Relations and R&D Avoid %					

ATTACHMENT 2

Source: ARMIS - GTEC FCC Report 4303, 1995 (Jan 95 - Dec 95)
($000's omitted)

2A. Dr. Selwyn's study
reflecting all needed corrections

Acct	Total Operating Expenses	As Filed Avoided Retail Percent	As Filed Avoided Retailing Expenses	Corrected Avoided Retail Percent	Corrected Avoided Retailing Expenses
	(a)	(j)	(k)=(a)x(j)	(l)	(m)=(a)x(l)

SUMMARY:

1	*Total Operating Revenues*	$2,572,521	[ARMIS]	$2,572,521	[ARMIS]
2	*Uncollectibles (Account 5300)*	$77,775	[ARMIS]	$77,775	[ARMIS]
3	*Total Revenues plus Uncollectibles*	$2,650,296	[ln 1 + ln 2]	$2,650,296	[ln 1 + ln 2]
4	*Total Operating Expenses*	$2,031,372	[ARMIS]	$2,031,372	[ARMIS]
5	*Return and Taxes*	$618,924	[ln 3 - ln 4]	$618,924	[ln 3 - ln 4]
6	*Total Operating Expenses plus Return & Taxes*	$2,650,296	[ln 4 + ln 5]	$2,650,296	[ln 4 + ln 5]
7	*Total Avoided Retailing Expenses*	$604,011	[Analysis]	$240,973	[Analysis]
8	*Percent Avoided Costs*	22.8%	[ln 7 ÷ ln 3]	9.1%	[ln 7 ÷ ln 3]

9 *Percent Avoided Costs*
(Corrected to determine the discount rate applicable to retail prices in conformance with the Telecommunications Act of 1996.)

Source: ARMIS - GTEC FCC Report 4303, 1995 (Jan 95 - Dec 95)
($000's omitted)

2A. Dr. Selwyn's study reflecting all needed corrections

				As Filed		Corrected	
	Acct		Total Operating Expenses	Avoided Retail Percent	Avoided Retailing Expenses	Avoided Retail Percent	Avoided Retailing Expenses
			(a)	(j)	(k)=(a)x(j)	(l)	(m)=(a)x(l)
12		***Marketing Expenses***	$100,183	99.90%	$100,074	54.40%	$54,452
13	6611	Product Management	$14,597	99.25%	$14,488	0.00%	$0
14	6612	Sales	$58,727	100.00%	$58,727	92.72%	$54,452
15	6613	Product Advertising	$26,859	100.00%	$26,859	0.00%	$0
16		***Customer Service Expenses***	$255,580	93.90%	$240,034	27.10%	$69,213
17	6621	Call Completion	$14,672	93.75%	$13,755	0.00%	$0
18	6622	Number Service	$56,340	85.50%	$48,171	0.00%	$0
19	6623	Customer Service	$184,568	96.50%	$178,108	37.50%	$69,213
20	5300	***Uncollectibles***	$77,775	95.20%	$74,042	83.70%	$65,098
21		***Support Expenses***	$217,594	23.3421%	$50,791	8.4874%	$18,468
22	6110	Network Support Expenses	$7,163	23.3421%	$1,672	8.4873%	$606
23	6112	Motor Vehicles	$3,721				
24	6113	Aircraft	$1,750				
25	6114	Special Purpose Vehicles	$0				
[illegible]	[illegible]	Garage & Work Equipment	$135				
[illegible]	[illegible]	Other Work Equipment	$1,558				
28	6120	General Support Expenses	$210,431	23.3421%	$49,119	8.4873%	$17,860
29	6121	Land & Buildings	$62,794				
30	6122	Furniture & Artworks	$5,741				
31	6123	Office Equipment	$9,100				
32	6124	General Purpose Computers	$132,796				
33		***Corporate Overhead Expenses***	$359,072	23.3421%	$83,815	8.4874%	$30,476
34	6710	Executive & Planning	$14,125	23.3421%	$3,297	8.4873%	$1,199
35	6711	Executive	$7,738				
36	6712	Planning	$6,387				
37	6720	General & Administrative	$344,947	23.3421%	$80,518	8.4873%	$29,277
38	6721	Accounting & Finance	$29,377				
39	6722	External Relations	$16,803				
40	6723	Human Resources	$27,589				
41	6724	Information Management	$142,434				
42	6725	Legal	$4,688				
43	6726	Procurement	$3,673				
44	6727	Research & Development	$9,114				
45	6728	Other General & Administrative	$111,271				
46	6790	Provision for Uncoll Notes Rec	$0	23.3421%	$0	8.4873%	$0
47		*Other Expenses*	$13,620	23.3407%	$3,179	8.4875%	$1,156
48	[illegible]	Special Charges	$6,461	23.3421%	$1,508	8.4873%	$548
[illegible]	[illegible]	Other Interest Deductions	$7,159	23.3421%	$1,671	8.4873%	$608

Source: ARMIS - GTEC FCC Report 4303, 1995 (Jan 95 - Dec 95)
($000's omitted)

2A. Dr. Selwyn's study reflecting all needed corrections

	Acct		Total Operating Expenses (a)	As Filed: Avoided Retail Percent (j)	As Filed: Avoided Retailing Expenses (k)=(a)x(j)	Corrected: Avoided Retail Percent (l)	Corrected: Avoided Retailing Expenses (m)=(a)x(l)
50		***Maintenance Expenses***	$384,457	3.2019%	$12,310	0.1337%	$514
51	6210	Central Office Switching	$105,817	3.2017%	$3,388	0.0000%	$0
52	6220	Operator Systems	$1,424	3.2017%	$46	0.0000%	$0
53	6230	Central Office Transmission	$18,915	3.2017%	$606	0.0000%	$0
54	6310	Information Orig/Term Expenses	$13,750	3.2017%	$440	0.0000%	$0
55	6311	Station Apparatus	$0				
56	6341	Large PABX	$0				
57	6351	Public Telephone Equipment	$7,579				
58	6362	Other Terminal Equipment	$6,171				
59	6410	Cable & Wire Facilities	$99,703	3.2017%	$3,192	0.0000%	$0
60	6510	Other PP&E Expenses	$6,056	3.2017%	$194	8.4873%	$514
61	6511	Property Held for Future Use	$0				
62	6512	Provisioning	$6,056				
63	6530	Network Operations Expenses	$138,792	3.2017%	$4,444	0.0000%	$0
64	6531	Power	$8,345				
[illegible]	[illegible]	Network Administration	$47,107				
[illegible]	[illegible]	Testing	$32,037				
[illegible]	[illegible]	Plant Operations Administration	$31,945				
[illegible]	[illegible]	Engineering	$19,358				
[illegible]	[illegible]	***Access Expenses***	$48,776	3.2017%	$1,562	0.0000%	$0
70	6560	***Depreciation Expenses***	$574,315	3.2017%	$18,388	0.1337%	$768
71	6561	Telecomm Plant in Service	$568,969				
72	6562	Property Held for Future Use	$0				
73	6563	Amortization - Tangibles	$5,346				
74	6564	Amortization - Intangibles	$0				
75	6565	Amortization - Other	$0				
76		***Return and Taxes***	$618,924	3.2017%	$19,816	0.1337%	$828

Source: ARMIS - GTEC FCC Report 4303, 1995 (Jan 95 - Dec 95)
($000's omitted)

2A. Dr. Selwyn's study reflecting all needed corrections

Acct	Total Operating Expenses	As Filed		Corrected	
		Avoided Retail Percent	Avoided Retailing Expenses	Avoided Retail Percent	Avoided Retailing Expenses
	(a)	(j)	(k)=(a)x(j)	(l)	(m)=(a)x(l)
78 Total Operating Expense		$2,031,372	[ln 4a]	$2,031,372	[ln 4a]
79 Total Depreciation Expense		$574,315	[ln 70a]	$574,315	[ln 70a]
80 Total Operating Expense less Depreciation		$1,457,057	[ln 78 - ln 79]	$1,457,057	[ln 78 - ln 79]
81 Avoidable Marketing Expense		$100,074	[ln 12]	$54,452	[ln 12]
82 Avoidable Customer Service Expense		$240,034	[ln 16]	$69,213	[ln 16]
83 Avoidable Marketing & Customer Service Expenses		$340,108	[ln 81 + ln 82]	$123,665	[ln 81 + ln 82]
84 Retail Share of General Expense		23.3421%	[ln 83 ÷ ln 80]	8.4873%	[ln 83 ÷ ln 80]
85 Telephone Plant in Service		$8,211,262	[ARMIS]	$8,211,262	[ARMIS]
86 Land & Support Plant		$1,126,279	[ARMIS]	$1,126,279	[ARMIS]
87 Land & Support Share of Plant in Service		13.7163%	[ln 86 ÷ ln 85]	13.7163%	[ln 86 ÷ ln 85]
88 Retail Share of General Expense		23.3421%	[ln 84]	8.4873%	[ln 84]
89 Retail Share of Plant Related Expense		3.2017%	[ln 87 x ln 88]	1.1641%	[ln 87 x ln 88]
90 Total Revenues		$7,235,876	[Pacific]	$12,502,589	[GTE Filing]
91 Total Uncollectibles		$133,015	[Pacific]	$236,490	[GTE Filing]
92 Total Uncollectibles as a % of Total Revenues		1.84%	[ln 91 ÷ ln 90]	1.89%	[ln 91 ÷ ln 90]
93 Total Access Revenues		$1,430,740	[Pacific]	$3,696,833	[Pacific]
94 Carrier Uncollectibles		$1,515	[Pacific]	$15,210	[Pacific]
95 Carrier Uncollectibles as a % of Carrier Revenues		0.11%	[ln 94 ÷ ln93]	0.41%	[ln 94 ÷ ln93]
96 Other Revenues		$5,805,136	[ln 90 - ln 93]	$8,805,756	[ln 90 - ln 93]
97 Other Uncollectibles		$131,500	[ln 91 - ln 94]	$221,280	[ln 91 - ln 94]
98 Other Uncolleftibles as a % of Other Revenues		2.27%	[ln 97 ÷ ln 96]	2.51%	[ln 97 ÷ ln 96]
99 % Avoided		95.2%	[1-(ln 95 ÷ ln 98)]	83.7%	[1-(ln 95 ÷ ln 98)]

100 A = Known Avoidable Expenses, i.e.,100% avoidable
101 B = Total Expenses - General Support Expenses
102 C = Total Expenses - Depreciation & Amortization Expenses
103 GS = General Support Expenses
104 GA = General & Administrative Expenses to be allocated,
i.e., less External Relations and R&D
105 GA Avoid % = (BxA)/(CxB-CxGS-BxGA)
[illegible] Avoid % = (CxA)/(BxC-BxGA-CxGS)
[illegible] and R&D Avoid %